PURPOSE

This report is the latest in a series on cigarette sales, advertising, and promotion that the Federal Trade Commission (the Commission) has submitted annually to Congress since 1967 pursuant to the Federal Cigarette Labeling and Advertising Act:[1]

> The Federal Trade Commission shall transmit a report to the Congress . . . concerning (1) the current practices and methods of cigarette advertising and promotion, and (2) such recommendations for legislation as it may deem appropriate.[2]

INTRODUCTION

The statistical tables appended to this report provide information on domestic sales and advertising and promotional activity for U.S. manufactured cigarettes for the years 1963 through 1995. The tables were compiled from raw data contained in special reports submitted to the Commission pursuant to compulsory process by the five major cigarette manufacturers in the United States: Brown & Williamson Tobacco Corporation, Liggett Group, Inc., Lorillard Tobacco Company, Philip Morris Incorporated, and R.J. Reynolds Tobacco Company.[3]

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[1] Pub. L. No. 89-92, 79 Stat. 282 (1965), as amended by Pub. L. No. 98-474, 98 Stat. 2204 (1984) and by Pub. L. No. 99-92, § 11, 99 Stat. 393, 402-04 (1985), current version at 15 U.S.C. § 1331 (1982 & Supp. IV 1986).

[2] 15 U.S.C. § 1337(b) (Supp. IV 1986).

[3] In 1995, B.A.T Industries, the parent corporation of Brown & Williamson, acquired The American Tobacco Company.

COMMISSION ACTIVITY

In April 1995, the Commission issued an order settling its charges that BAT's acquisition of The American Tobacco Company would violate antitrust laws when B.A.T agreed to divest itself of certain assets it proposed to acquire from American. In October 1996, the Commission approved B.A.T's application to divest six brands, a manufacturing plant, and certain related assets to Commonwealth Tobacco LLC.

On July 20, 1994, the Commission asked the National Cancer Institute ("NCI") to convene a consensus conference to address certain issues concerning the FTC cigarette testing methodology and ratings system. NCI convened the conference in December 1994. At the close of the conference, the Ad Hoc Committee of the President's Cancer Panel issued a statement recommending, inter alia, that certain changes be made both in the method currently used to obtain cigarette tar, nicotine, and carbon monoxide yields and in the manner in which information about those yields is communicated to consumers. In October 1996, NCI published a report of the conference as the 7th monograph in its smoking and tobacco control series: "The FTC Cigarette Test Method for Determining Tar, Nicotine, and Carbon Monoxide Yields of U.S. Cigarettes: Report of the NCI Expert Committee." In light of the concerns raised by the NCI conferees about the current system, the Commission is giving careful consideration to possible changes in the test method.

On May 28, 1997, the Commission issued an administrative complaint against the R.J. Reynolds Tobacco Company, alleging that the company's use of the "Joe Camel" campaign to promote Camel brand cigarettes violated Section 5 of the FTC Act.

DISCUSSION OF THE DATA

Table 1 displays annual cigarette sales by manufacturers to wholesalers and retailers. In 1995, the major domestic cigarette manufacturers sold 482.2 billion cigarettes domestically, which is 8 billion fewer cigarettes than they sold in 1994. This 1.6 percent decline from the 1994 level contrasts with a 6.2 percent increase in sales in 1994. Cigarette sales have declined every year from 1985 through 1995, except for 1994.

The Commission's previous report to Congress noted that the volatility in cigarette sales by manufacturers from 1992 to 1994 reflected in Table 1 was not seen in the cigarette consumption series produced by the U.S. Department of Agriculture ("USDA"), which estimated consumption in those three years at 500 billion, 485 billion and 486 billion cigarettes, respectively.[4] Construed together, the two data sets suggested that some increase in the number of cigarettes actually sold to consumers occurred in 1994, but that the dramatic increase reported to the Commission for that year likely reflected, in large part, changes in inventories rather than actual retail sales. USDA consumption estimates remained relatively steady for 1995 at 487 billion cigarettes.

Table 2 shows U.S. adult per capita cigarette sales per year, and is generated by dividing manufacturers' sales to wholesalers and retailers by the U.S. adult population. Per capita sales

[4]USDA, Tobacco Situation and Outlook Report, TBS-236, June 1996, Table 1, p. 4. Differences between the FTC and USDA series may reflect changes in inventory holdings by cigarette wholesalers and retailers. Shifts in inventories can influence the numbers of cigarettes sold annually by cigarette manufacturers to wholesalers and retailers, which is the statistic reported to the FTC and contained in the annual cigarette reports. In contrast, year-to-year changes in wholesaler inventories are not reflected in the USDA series, which is based on an estimate of the number of cigarettes actually sold to consumers.

decreased from 2,516 in 1994 to 2,482 in 1995, a decrease of 1.3 percent, or 34 cigarettes per person. Per capita sales had increased 4.2 percent, or 102 cigarettes, from 1993 to 1994. As with Table 1, that increase might have reflected changes in wholesalers' and retailers' inventories.

Tables 3 through 3E show the amounts spent on cigarette advertising and promotion for the years 1970, and 1975 through 1995.[5] These tables break out the amounts spent on the different types of media advertising (e.g., newspapers and magazines) and sales promotion activities (e.g., distribution of cigarette samples and specialty gift items) and also give the percentage of the total amount spent for the various types of advertising and promotion.

Table 3E shows that overall, $4.9 billion was spent on cigarette advertising and promotion in 1995, an increase of $62 million, or 1.2 percent, from the $4.83 billion spent in 1994. Spending has increased every year since 1987, except for a $1.2 billion decrease in 1994.

Newspaper advertising expenditures decreased 20.8 percent between 1994 and 1995, from $24.1 million to $19.1 million; this advertising category accounts for less than one-half of 1 percent of all expenditures. Although newspaper spending accounted for 23.1 percent of total expenditures in 1981, it has accounted for less than 1 percent of expenditures since 1992.

[5]The reported figures include all advertising, merchandising, and promotional expenditures related to cigarettes, regardless of whether such advertising would constitute "commercial speech" or would be protected from law enforcement action under the First Amendment. The Commission began requiring tobacco companies to include expenditures for such protected speech in 1989.

A total of $248.8 million was spent on magazine advertising in 1995, a decrease of 1.1 percent from 1994. Magazine advertising represented 5.1 percent of total spending. Spending on magazine advertising peaked in 1984, when the cigarette companies reported spending $425.9 million, or 20.3 percent of total advertising and promotional expenditures.

Spending on outdoor advertising totaled $273.7 million in 1995, an increase of $33.6 million from 1994, when $240.0 million was spent. In 1995, outdoor advertising expenditures comprised 5.6 percent of total advertising and promotional spending, down from a high of 15.5 percent in 1983.

Spending on transit advertising decreased from $29.3 million in 1994 to $22.5 million in 1995, a drop of 23.2 percent; this category, like newspapers, accounts for only about one-half of 1 percent of all expenditures.

Spending on point of sale promotional materials decreased by $83.7 million (24.4 percent) from 1994 ($342.7 million) to 1995 ($259.0 million). Point of sale advertising accounted for 5.3 percent of total advertising and promotion in 1995, the first time it has been below 6.0 percent since 1989.

Promotional allowances were $1.87 billion in 1995, up 11.1 percent from $1.68 billion in 1994. In 1995, these expenditures accounted for 38.1 percent of the total advertising and promotion expenditures. As in 1994, this was the largest category of advertising and promotional expenditures.

Money spent giving cigarette samples to the public ("sampling distribution") rose from $7.0 million in 1994 to $13.8 million in 1995, an increase of 97.1 percent. Sampling expenditures remained well below their pre-1994 levels, however: slightly more than $100 million was spent in 1990 and just over $40 million in 1993. Cigarette sampling distribution accounted for only 0.3 percent of the total spent on advertising and promotion in 1995; these expenditures reached a high of 7.9 percent of the total spent on advertising and promotion in 1982.

In 1995, $665.2 million was spent on specialty item distribution through the mail, at promotional events, or by any means other than at the point-of-sale with the purchase of cigarettes.[6] (Specialty items distributed along with the purchase of cigarettes were redesignated as retail value added expenses beginning in 1988.) Specialty item distribution expenditures declined $185.6 million (21.8 percent) from 1994, and accounted for 13.6 percent of total advertising and promotional expenditures in 1995.

Spending on public entertainment increased by $29.3 million from 1994 to 1995 (36.1 percent). With expenditures reported at $110.7 million, public entertainment accounted for 2.3 percent of total advertising and promotion expenditures in 1995, the most it has been since 1991, when it accounted for 2.6 percent of the total.

[6] Specialty item advertising is the practice of branding items such as T-shirts, caps, sunglasses, key chains, calendars, lighters and sporting goods with a brand's logo, and then giving them away or selling them to consumers.

The cigarette companies reported a total of $34.6 million for direct mail advertising in 1995, an increase of $3.4 million (11.0 percent) from the $31.2 million reported in 1994. This category does not include direct mail containing coupons. Coupons sent via direct mail have been reported in the coupon and retail value added category since 1988.

All reporting companies indicated that no money had been spent on endorsements and testimonials for cigarettes in 1995. No expenditures have been reported in this category since 1988.

After dropping sharply from 1993 to 1994 (from $2.56 billion to $1.25 billion), coupons and retail value added promotions expenditures increased slightly in 1995, rising $100 million (8.0 percent) to $1.35 billion. This category includes cents-off coupons, multiple pack promotions, and retail value added offers.[7] The cigarette companies were first asked to report these expenses as a distinct category in 1988, when $874 million was spent.

The Commission collects expenditure information in two categories that do not appear as line items on the charts because they may span several categories. In 1988, the Commission began requiring the cigarette companies to state separately the amount of money spent on sports and

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[7]Multiple pack offers are additional packs of cigarettes that are given free with cigarette purchases, such as "buy one, get one free." Retail value added offers include non-cigarette items, such as key chains or lighters, given away at the point of sale with the purchase of cigarettes.

sporting events. For 1995, the major domestic cigarette companies reported that they spent $83 million on sports and sporting events,[8] an increase of $7 million from 1994.

In 1989, the Commission began requiring the cigarette companies to declare whether any money or other form of compensation had been paid to have any cigarette brand names or tobacco products appear in any motion pictures or television shows. This practice has been reported as unfunded since 1989.

The data on cigarette advertising and promotional expenditures reported in Tables 3 through 3D were not collected in their present form until 1975. Therefore, Tables 4 and 5, which report cigarette advertising expenditures from 1963 through 1974 and 1970 through 1974, respectively, have been retained in the report for comparative purposes.

Tables 6 through 6C give the domestic market share of, and the percentage of total cigarette advertising expenditures devoted to, cigarettes with tar ratings of 15 milligrams (mg.) or less for the years 1967 through 1995. The data are broken down into separate categories according to tar ratings of less than 3, 6, 9, 12, and 15 mg. (categories are presented cumulatively).

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[8] This includes expenditures for: (1) the sponsoring, advertising or promotion of sports or sporting events; support of an individual, group, or sports team; and purchase of or support for equipment, uniforms, sports facilities and/or training facilities; (2) all expenditures for advertising in the name of the cigarette company or any of its brands in a sports facility, on a scoreboard, or in conjunction with the reporting of sports results; and (3) all expenditures for functional promotional items (clothing, hats, etc.) connected with a sporting event.

In 1995, 72.7 percent of the domestic cigarette market was cigarettes with tar ratings of 15 mg. or less. The market share of cigarettes rated 15 mg. or less has increased gradually since 1982, when it accounted for 52.2 percent.

Since 1979, the cigarette companies have reported that the majority of advertising and promotional spending has been devoted to cigarettes with tar ratings of 15 mg. or less. In 1995, 73.9 percent of all advertising and promotion was spent on cigarettes with tar ratings of 15 mg. or less.

As shown in Table 7, filtered cigarettes have dominated the market since the Commission began collecting this information in 1963, rising from 58 percent at that time to 97 percent in 1992. The market share of filtered cigarettes remained constant in 1995 at 97 percent. Table 8 shows that the cigarette companies have reported a close correlation between advertising and promotion expenditures and domestic market share for filter cigarettes in recent years.

Table 9 provides the domestic market share of the various cigarette length categories. The King-size (79-88 mm) category continues to be the biggest seller, with 57 percent of the market. This category is followed by the Long (94-101 mm) group, which holds 40 percent of the market. Regular (68-72 mm) and Ultra-Long (110-121 mm) cigarettes continued to account for 1 percent and 2 percent, respectively, of the market in 1995.

Tables 10 through 10B provide the domestic market share and percentage of total advertising and promotional expenditures devoted to Long and Ultra-Long cigarettes for 1967 through 1995.

In 1995, the market share of longer cigarettes and the percentage of total advertising and promotional expenditures devoted to those cigarettes both decreased from 43 percent to 42 percent.

Table 11 gives the market share of menthol and non-menthol cigarettes. In 1995, the market share of menthol cigarettes remained at 25 percent, while non-menthols held 75 percent of the market.

In 1994, the Commission began requiring the cigarette companies to indicate whether "tar" and nicotine ratings were displayed on cigarette packaging and advertising. Table 12 shows that cigarette varieties that printed tar and nicotine ratings on their packs represented only 6.1 percent of the overall market in 1995, down slightly from 6.3 percent in 1994. Table 12 also shows: (1) the percentage of the overall cigarette market represented by varieties with different tar ratings, and (2) within each tar group, the market share of those varieties that disclose tar and nicotine ratings on their packs.